



## Fleming Reinsurance Ltd.

Financial Condition Report ("FCR")

For the twelve-month (12) period ending December 31, 2020

*As submitted to the Bermuda Monetary Authority on June 16, 2021*

## Contents

1	Executive Summary.....	5
1.1	Name of Insurer .....	6
1.2	Regulatory Supervisor.....	6
1.3	Approved Auditor .....	6
1.4	Ownership Details.....	6
1.5	Group Structure .....	7
1.6	Insurance business written by business segment.....	7
1.7	Performance from underwriting activity .....	8
1.8	Performance from investment activity .....	8
1.9	Material Income and Expense .....	8
1.10	Any other material information.....	8
2.	Governance Structure .....	9
2.1	Board and Senior Executives.....	10
2.1.1.	Board and Senior Executive Structure, role, responsibilities and segregation of responsibilities .....	10
2.2	Remuneration Policy.....	10
2.3	Pension and Early Retirement Schemes .....	10
2.4	Shareholder Controllers, Persons who Exercise Significant Influence, the Board or Senior Executive Material Transactions.....	11
2.5	Fitness and Proprietary Requirements .....	11
2.5.1	Fit and Proper Process in assessing the Board and Senior Executive.....	11
2.6	Risk Management and Solvency Self-Assessment .....	13
2.6.1	Risk Management Process & Procedures to Identify, Measure, Manage and Report on Risk Exposures .....	13
2.6.2	Risk Management Strategy .....	14
2.6.3	Risk Policies .....	16
2.6.4	Risk Management and Solvency Self-Assessment Systems Implementation.....	16
2.6.5	Relationship between Solvency Self-Assessment, Solvency Needs & Capital and Risk Management.....	17
2.6.6	Solvency Self-Assessment Approval Process .....	18
2.7	Internal Controls .....	18

2.7.1 Internal Control System .....	18
2.7.2 Compliance Function .....	18
2.8 Internal Audit .....	19
2.9 Actuarial Function .....	19
2.10 Outsourcing.....	19
2.11 Other Material Information .....	19
3. Risk Profile.....	19
3.1 Material Risk .....	19
3.2 Mitigation of Risks.....	20
3.3 Material Risk Concentrations.....	21
3.4 Investment of assets in Accordance with the Prudent Person Principals .....	21
3.5 Stress and Scenario Testing .....	21
3.5.1 Assumed Risk .....	22
3.5.2 Operational Risk.....	22
4. Solvency Valuation .....	22
4.1 Valuation Bases and Assumptions .....	22
4.1.1. Valuation of Assets.....	22
4.1.2. Technical Provisions and Best Estimate .....	23
4.1.3 Reinsurance Recoverables from Reinsurance Contracts .....	23
4.1.4 Valuation Other Liabilities.....	24
4.1.5 Any Other Material Information .....	24
5. Capital Management.....	24
5.1 Overview .....	24
5.2 Eligible Capital.....	24
5.2.1. Capital Management Policy and Process for Capital Needs, How Capital is Managed and Material Changes During the Reporting Period.....	24
5.2.2. Eligible Capital Categorized by Tiers in Accordance to the Eligible Capital Rules Used to Meet ECR and MSM Requirements of the Insurance Act: .....	24
5.2.3. Confirmation of Eligible Capital That is Subject to Transitional Arrangements.....	24
5.2.4. Identification of Any Factors Affecting Encumbrances on the Availability and Transferability of Capital to Meet the ECR.....	25
5.2.5. Identification of Ancillary Capital Instruments Approved by the Authority .....	25

5.2.6. Identification of Differences in Shareholder’s Equity as Stated in the Financial Statements Versus the Available Capital and Surplus.....	25
5.3 Regulatory Capital Requirements .....	25
5.3.1 Economic Capital requirement and Minimum Margin of Solvency.....	25
5.3.2. Identification of Any Non-Compliance with the MSM and the ECR .....	25
5.3.3. A Description of the Amount and Circumstances Surrounding the Non-Compliance, The Remedial Measure and Their Effectiveness.....	25
5.3.4. Where the Non-Compliance is not Resolved, a Description of the Amount of the Non-Compliance .....	25
5.5 Approved Internal Capital Model .....	25
6. Subsequent Events.....	25

## I Executive Summary

Fleming Reinsurance Ltd., a Bermuda limited liability company incorporated on March 6, 2015 and licensed as a Class 3 insurance company on May 21, 2015 under the Insurance Act 1978 and its related regulations, each as amended (Insurance Act). Historically, the Company was used to write P&C insurance coverage primarily for related party subsidiaries of Fleming Corp.

The FCR has been prepared in accordance with the Bermuda Monetary Authority’s (“BMA”) requirements of the Insurance (Public Disclosure) Rules 2015 and the Insurance (Group Supervision) Rules 2011. It covers the Business and Performance of Fleming Group and their Governance Structure, Risk Profile, Solvency Valuation and Capital Management.

In December 2018, the Company updated its license from a Class 3 to a Class 3A. Led by industry veteran Eric Haller, Fleming Re provides finality and liquidity solutions to insurance companies in the middle market, and targets long tail, low volatility lines including workers compensation, general liability, auto, and other opportunistic lines where liabilities are also quantifiable and limited.

Founded by private equity sponsor Fleming Corp, Fleming Re is building a permanent carrier in the P&C runoff space with institutional co-investors seeking an attractive risk-adjusted returns with reinsurance industry exposure.

The principal risks that are managed are market risk, credit risk, liquidity risk, underwriting and operational risk through investment and the past underwriting activities of the Group’s regulated subsidiaries. These risks are controlled through the application of Enterprise Risk Management framework. The policies, procedures and internal controls we have in place assist Fleming Re in assessing, managing and controlling these exposures. The executives of the Company are closely involved in the operations and monitor results carefully.

Fleming Re continues to review a wide range of transaction, has several transactions currently under exclusivity and looks to close a number of these in 2020.

### Capital Management

As at December 31, 2020 Fleming Re’s regulatory capital requirements were assessed, under the BSCR-3B capital model, as follows:

	2020
<b>Group Eligible Capital</b>	\$8,235,000
<b>Minimum Margin Solvency</b>	\$1,222,000
<b>Enhanced Capital Requirement</b>	\$4,909,000
<b>Bermuda Solvency Capital Requirement</b>	168%



The Company's shareholders have contributed \$6.5 million which has been issued of Series A Preferred stock issued and funded into Fleming Re Holdings (Parent) since inception. Of that, \$6 million of common stock has been contributed to Fleming Reinsurance Ltd. as of December 2020.

For further details on the Company's Capital and Solvency Requirements please see section 5.

### **I.1 Name of Insurer**

Fleming Reinsurance Ltd. ("the Company")

### **I.2 Regulatory Supervisor**

<b>Insurance Supervisor</b>	<b>Group Supervisor</b>
Bermuda Monetary Authority BMA House 43 Victoria Street, Hamilton Bermuda	Bermuda Monetary Authority BMA House 43 Victoria Street, Hamilton Bermuda

### **I.3 Approved Auditor**

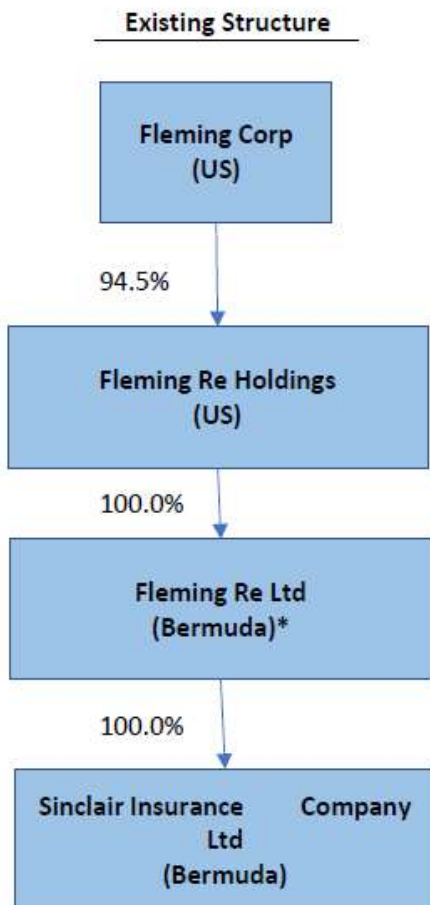
<b>Statutory Reporting</b>	<b>GAAP Reporting</b>
PWC Bermuda Washington House. 4th Floor 16 Church Street Hamilton, HM 11 Bermuda	PWC Bermuda Washington House. 4th Floor 16 Church Street Hamilton, HM 11 Bermuda

### **I.4 Ownership Details**

The Company is a wholly owned subsidiary of Fleming Re Holdings LLC and ultimately owned by Fleming Corp.

## I.5 Group Structure

Figure 1 – Corporate Structure



## I.6 Insurance business written by business segment

The Company, consisting of one segment, is a specialty run-off carrier targeting the mid-market insurance sector. The lines of business the Company is focused on are legacy P&C liabilities, primarily lines with longer tails. The Company wrote business mainly in the US.

Gross premiums written in 2020 was \$10,701,161.

### I.7 Performance from underwriting activity

The table below shows the underwriting activity for the year ended December 31, 2020.

	2020
Earned Premiums, net of reinsurance	\$10,164,331
Net losses and loss expenses	\$(7,137,579)
Deferred gain on reinsurance contracts	\$(893,006)
Commissions	\$23,516
Net Run-off Income	\$2,157,262

### I.8 Performance from investment activity

For 2020, the Company was holding cash deposits, investments and a funds withheld asset. Our investment portfolio consists of highly rated US Treasury, US Agency and Mortgage Backed securities. The effective duration of investments is 1.52 years with an effective yield of 1.74%. Our funds withheld receivable is structured with a stated crediting rate and does not have any exposure to any underlying investments.

	Market Value
Cash and Cash based equivalents	\$9,978,771
Investments	\$6,811,132
Funds Withheld	\$7,611,837
Total	\$24,401,740

### I.9 Material Income and Expense

During 2020 Fleming Re's main revenue source was premium as shown in section 1.7. Additional income was generated from Investment Income of \$257,009 and gain on bargain purchase of \$447,396.

Fleming Re's most significant expenses related to the G&A expenses of \$1,248,406 for the Company.

### I.10 Any other material information

Not applicable

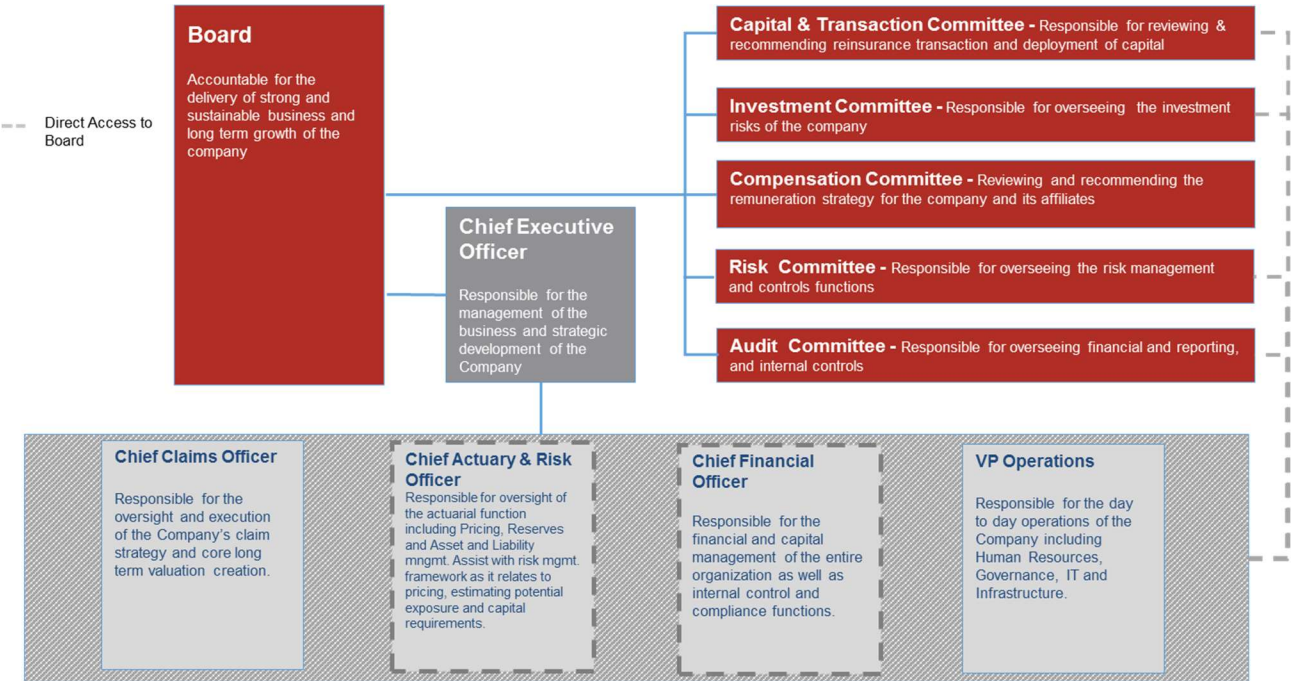


## 2. Governance Structure

Governance of the Company relies on four cornerstones:

- 1) A Governance Framework, aligned with the Company's strategic objectives, providing oversight by the Board, clear ownership and accountability for risks, appropriate independence to various risk stakeholders as well as clear escalation and reporting channels.
- 2) A Risk Management Framework which, includes a defined Risk Appetite framework. For each risk, limits and operational checkpoints as well as functional identification, measurement, mitigation and monitoring processes are documented. This Risk Management Framework also explains the roles and responsibilities of stakeholders holding the functions as defined within the Governance framework.
- 3) An Internal Control Framework, defining the processes required to manage the Company in accordance with its Governance and Risk Management frameworks.
- 4) A Risk Register combining operational and risk management processes to deliver a descriptive analysis of all material risks threatening at least one of the Company's strategic objectives.

Figure 2 - Group Governance Structure



## 2.1 Board and Senior Executives

### 2.1.1. Board and Senior Executive Structure, role, responsibilities and segregation of responsibilities

The Board of Director’s (the “Board”) and managements are committed to good governance. The Board’s role is to exercise oversight in relation to the organization and is set out in our Bye-laws. These set out the roles and responsibilities of the Board. We believe the Company has a strong governance framework and we will continue to evaluate and reassess.

The Key components are set forth in the following documents:

- 1) Our Bye-laws
- 2) Governance Manual
- 3) Board Terms of Reference
- 4) Code of Conduct
- 5) Committee Charters

The Board meets on a Quarterly basis and currently consist of three members. The Directors of the Company’s Board are listed as follows:

Name	Experience
Stephen Minor	20+ years
Eric Haller	20+ years
Martin Dolan	35+ years
Nicholas Frost	25+ years

The Board of Directors has delegated its authority to committees as show in the Group Governance Structure and each with their own Charter.

## 2.2 Remuneration Policy

The Compensation Committee has the delegated authority of the Board as set out in the Terms of Reference including responsibility for overseeing, on behalf of the Board the compensation of senior executives of the Company. Including setting goals and objectives for senior executives and evaluating performance with respect to such goals and objectives.

## 2.3 Pension and Early Retirement Schemes

The Compensation Committee is responsible for approving all remuneration benefits and follows guidelines set out in the Employee Handbook. Fleming Re has a registered pension plan with BF&M.

## **2.4 Shareholder Controllers, Persons who Exercise Significant Influence, the Board or Senior Executive Material Transactions**

For 2020, Stephen Minor (Chairman of the Board) is the largest individual shareholder and also controls the voting shares (Common Stock) of the Company. Stephen is involved in the operations of the Company in his capacity as a Director.

## **2.5 Fitness and Proprietary Requirements**

### **2.5.1 Fit and Proper Process in assessing the Board and Senior Executive**

The Company appoints members of the Board based on the individual's expertise, work experience and professional judgment. The Board of Directors Term of Reference provides guidance for appointments to the Board. Fleming Re has developed and adopted this set of governance guidelines to promote the effective functioning of the Board and set forth a common set of expectations for how the Board should perform its functions.

The Board and Senior Management have considerable experience in Underwriting, Finance, Reinsurance, Actuarial, Claims across various Jurisdiction. They provide valued oversight and input to the operations and risk management of the Company. Because directors play such an important role in the Company, their recruitment demands a correspondingly systematic and professional approach. The Board's objective is to have a number and mix of directors to ensure that there is an appropriate level of experience, knowledge, skills and expertise commensurate with the nature, scale and complexity of the Company's business.

The Board works with Management to ensure that key roles within the organization are filled by employees who are demonstrably qualified for their role. Employees go through a number of checks and balances to ensure the Board makes informed decisions about the suitability of a potential staff member.

#### **Stephen Minor—Chairman**

Stephen is the founder of Fleming Corp., an independent private equity sponsor focused on financial institutions, utilities, and tactical opportunities in long term asset classes where permanent capital affords an advantage. Previously, he was a Principal at Torch Hill Investment Partners, a Washington DC-based private equity fund. Prior to Torch Hill, Stephen worked for Deutsche Bank in NY in the securitization and debt products group. He has served as a Director on the boards of All Coast, UniGas, Artel, Fleming Re, and Fleming Properties. Stephen attended the US Naval Academy, graduated from Vanderbilt University and received an MBA from Georgetown.

#### **Eric Haller – Director and CEO**

Over 20 years of senior industry experience at international insurers. Prior to Fleming Re, Eric was the CFO & CRO of Safe Harbor Re, a Bermuda-based long-term reinsurer providing runoff solutions and reinsurance to the life and annuity market. Eric has been responsible for overseeing all aspects of corporate reinsurers, including business development, underwriting, treasury, accounting, tax, risk and regulatory compliance functions. He also developed and executed strategic operating decisions across

entire organizations. Prior to joining Safe Harbor Re, Eric led the North American M&A team at Randall & Quilter (AIM: RQIH). Prior to R&Q, he headed the Strategic Planning Group at Athene, the Apollo backed reinsurer, and worked at XL Capital in their Investment Management Group and began his career with Deloitte & Touché.

#### **Martin Dolan – Independent Director**

Martin Dolan has been a senior insurance investment banker for 25 years working in Europe, UK, Bermuda, and the US.

During this time, Mr Dolan focused on addressing many of the sector's most important dislocations, including the industry's \$200 billion exposure to asbestos/pollution liabilities, the \$10 billion restructuring of Lloyd's of London, raising \$5 billion of capital following the WTC attack/Hurricane Katrina losses, and the restructuring of AIG (\$190 billion) and Hartford during the global financial crisis.

Mr Dolan has advised on the formation and funding of many innovative companies which redefined how capital providers accessed specialty insurance risks and became multi-billion dollar sector leaders including Admiral UK, Amlin, Catlin, Hiscox, Tarquin/Axis, Renaissance Re/DaVinci Re, his work included extensive work with regulators and rating agencies to allow these new ventures to flourish. Mr Dolan is now the senior principal of his own advisory firm, Martin W Dolan and Company, Incorporated.

#### **Nicholas Frost – Director and Interim CFO**

Nick has a significant amount of experience with run-off insurance companies. He has previously served on the Transaction Committee of a run-off company that approved 15 transactions during his tenure. Nick is President of the Davies Captive Management operations in Bermuda. Nick has over 25 years experience in the insurance industry and has specialized in captives in Bermuda since 1988. He is a member of the Institute of Chartered Accountants in England & Wales and a member of the Board of Directors of the Bermuda Insurance Managers Association.

#### **Other Senior Executives:**

##### **Jim McNichols—Chief Actuarial Officer**

Mr. McNichols is an Associate of the Casualty Actuarial Society (ACAS), a Member of the American Academy of Actuaries (MAAA), and a Member of the International Actuarial Association (MIAA). He was the Chief Actuary for several different international (re)insurance companies including, XL Capital (Bermuda), and Greenlight Re (Cayman Islands). A consulting actuary with 30+ years of experience in Property and Casualty actuarial and ERM, Mr. McNichols recent areas of focus include structured (captive) reinsurance solutions, risk capital modeling, financial market risks (i.e., interest rate, recessions, foreign exchange and commodity pricing risks), and credit & mortgage risks. Mr. McNichols has published on several topics including financial guaranty derivatives and market pricing risk analytics. He is a frequent presenter at insurance industry symposia. Jim also currently serves as enterprise faculty to Clemson University – Risk Engineering and System Analytics, a collaboration with AIG, lecturing masters level courses in actuarial and enterprise risk management. Mr. McNichols attained his Bachelor of Science in Psychology, with a minor in financial mathematics, from the University of Illinois.

**Jesse Walcott—Chief Operation Officer (interim)**

Jesse has extensive experience building companies and providing strategic planning leadership. Prior to joining Fleming Corp., Jesse served as a Principal and lead deal professional at Torch Hill Investment Partners and CFO and Board member for selected portfolio companies. Prior to Torch Hill, Jesse spent seven years with Cerberus Capital Management serving in the Private Equity Group and as VP of Corporate Development at two portfolio companies (Remington Arms and IAP Worldwide Services). At Cerberus, Jesse was involved with over \$7 billion in equity investments and 12 completed transactions.

The Compensation Committee has reviewed the independence of each of our Directors and deems Mr. Frost to be an independent Board member.

**2.6 Risk Management and Solvency Self-Assessment**

**2.6.1 Risk Management Process & Procedures to Identify, Measure, Manage and Report on Risk Exposures**

Risk management processes and procedures are managed at Board level in conjunction with Senior Management. The goal of the Company’s risk management framework is to mitigate, as much as possible, the Company’s risk exposure to minimize the impact of undesired and/or unexpected events.

The Company’s risk management objectives are to:

- Establish the level of risk acceptable (risk appetite and risk tolerance);
- Identify the risks which represent a threat to the achievement of our strategic objectives;
- Identify, define and measure key risk indicators enabling an efficient monitoring of risks;
- Define and take appropriate actions to reduce the Company’s risk exposure;
- Ensure the risk management framework is incorporated in day-to-day business processes;
- Review controls and mitigation actions to ensure they remain relevant and effective.

Fleming Re’s Risk Committee has the responsibility for the risk management processes and procedures. The role of the Committee is to encourage and safeguard the highest standards of integrity in the risk management framework, processes and monitoring. Having regard to laws and regulations applicable to the Group and the provisions of the BMA

The Risk Committee is listed as follows:

<b>Name</b>	<b>Position</b>
<b>Stephen Minor</b>	Chairman
<b>Eric Haller</b>	Chief Executive Officer
<b>Jesse Walcott</b>	Chief Operating Officer (acting)

The Risk Committee convenes quarterly. The Committee will report to the Board and through the CEO of the Company (where relevant to the boards of the regulated entities) on areas of business risk or exposure which are highlighted by its review and monitoring process with recommendations if appropriate, of actions that management should take. The specific responsibilities of the Committee are set out below.

- Ensure that the company has an effective risk management system in place that is proportionate to the nature, scale and complexity of the risks inherent in the business. This should be reviewed at least annually and should cover risk identification, measurement, response and monitoring.
- Provide oversight and advice to the Board on the current risk exposures of the company and future risk strategy.
- Provide advice to the Board on risk appetite
- Provide advice to the Board on all company policies relating to risk management
- Provide advice to the Board on the management of internal capital to cover the risks of the company.

### 2.6.2 Risk Management Strategy

It is critical that the Company implements appropriate risk tolerance levels in order to balance the acquiring of assets and assumption of liabilities. The Company applies risk charges to all aspects of its operations in accordance with generally accepted actuarial standards.

The principal objective of the Company is to provide run-off solutions for captives, insurance and reinsurance companies and other insurance-related companies requiring surplus relief, risk capacity and risk protection by assuming low volatility liabilities.

This is supported by the Company’s governance objectives, to ensure an effective corporate governance structure and risk management framework are in place, meeting all statutory and regulatory requirements and international best standards. Further detail on the Company’s strategic and governance objectives are below:

Strategic Objectives	Governance enabling Strategic Objectives
<b>Financial: Close profitable run-off transactions within our risk tolerances and underwriting guidelines.</b>	1) Protect the interests of shareholders and generate long term value  2) Establish an ERM framework that can scale to accommodate an increase in growth and complexity.

<b>Business Development: Establish a broad network of intermediaries and create innovation to the run-off industry</b>	<ol style="list-style-type: none"> <li>1) Ensure intermediaries are reputable and known in the industry</li> <li>2) Ensure innovation to the industry does not generate additional risk. Board Committees will be involved in this process.</li> </ol>
<b>Operational: Develop best in class infrastructure, internal resources and external resources.</b>	<ol style="list-style-type: none"> <li>1) Focus on internal training and accountability as well as clearly defining responsibilities.</li> <li>2) External resources should be reputable, and all relationships are in line with our outsourcing policy.</li> </ol>
<b>Information: Remain aware of trends in the insurance market, emerging markets that possess new risks, and new methods of conducting business.</b>	<ol style="list-style-type: none"> <li>1) Establish a culture of transparency within the organization and ensure goals, principles and processes are understood</li> <li>2) Create open channels of communication to identify and report any abuses, conflicts of interest but also to identify areas for improvement. This will be in line with our Code of Conduct, Employee Handbook and our Whistle Blower and Anti-Money Laundering Policies.</li> </ol>

The key risks categories are summarized in the risk register along with specific risk which the Company has established including a risk description, risk evaluation and mitigating factors. The key risk categories are summarized below:

- Market
- Liquidity
- Underwriting
- Reserving
- Operational

In addition to the above, an outsourcing policy defining the key criteria for service providers has been implemented. The policy details the relevant key components of the Company’s Risk Management Framework and ensures that it:

- Contains clearly assigned overall risk management responsibilities;
- Defined to be consistent with the strategic objectives of the Company;
- Operate across all the activities of the Company; is a continuous approach which is referred to in all major decision-taking processes of the Company.

### 2.6.3 Risk Policies

The Company has documented its risk appetite framework within the Underwriting and Investment Guidelines. These functional areas comprise most of the Company's risk at this point in its life cycle. The risk appetite framework will be updated as needed. In addition to these functional areas, the Company has documented policies to address the risk appetite of the operational functions of the Company.

As soon as the tolerance levels defined in the Risk Appetite framework are exceeded as a result of any event that increases of the risk(s) the Company can be exposed to occur, the Risk Management Function defines appropriate corrective measures to reduce the risk within the limits acceptable the Company.

Any corrective measures together with an implementation plan will be submitted to the Board of Directors for approval.

In addition to the risk appetite and policies controls and monitoring tools have been created to ensure risk and managed appropriately. The risk register is used to document all risks that the business assumes it may take and access the current risk profile.

We are also embedding risk awareness throughout the Company to ensure we take a proactive approach in educating employees. We encourage ongoing training and briefings for our employees and hold an annual training session. All employees are further required to read and sign:

- Code of Conduct
- Employee Handbook

Further all employees must be aware of all other company policies including AML, ATF, IT Policy and Data Security.

### 2.6.4 Risk Management and Solvency Self-Assessment Systems Implementation

The Company has set up a Corporate Governance Framework based on following principles:

- The Board of Directors is the focal point of the governance system and is ultimately accountable and responsible for the performance and conduct of the Company and, as such, must have at its disposal all required capabilities to achieve its duties. The Board has delegated its authority to various committees to assist with these duties.
- An embedded Compliance Function performed by the Risk Committee aims to ensure the continuous compliance of the Company with all legal, regulatory and administrative requirements;
- An appropriate segregation of duties in order to enable the various risk management, internal audit, actuarial and compliance function to perform independent risk and business control, mitigation, monitoring and reporting tasks. These functions are carried out by the board committees in conjunction with management oversight of outsourced service providers;



- A meaningful and practical approach in documenting policies and strategies to formalize all processes and ensure efficiency, fit and proper and best-in-class criteria;
- Structured reporting processes to enable an appropriate escalation of risks issues to the Board of Directors in order to ensure a clear and comprehensive information process allowing the Board to perform an efficient and prudent conduct of business in line with the strategic objectives.

Fleming Re has chosen the "three lines of defense" governance model, which leads to the following general governance framework throughout the Company.

1 <sup>st</sup> Line of Defense	2 <sup>nd</sup> Line of Defense	3 <sup>rd</sup> Line of Defense
<b>Risk and control embedded in the business</b>	<b>The oversight Function</b>	Provides independent assurance
<p>Primary accountability within the context of day-to-day operations. The first line of defense ensures that operations are carried out correctly and that risk exposures are managed, controlled and reported in accordance with the risk appetite and risk policies set out by the board.</p>	<p>The 2nd line oversees defining, developing, implementing and maintaining risk frameworks, policies and procedures. It defines the business guidelines and oversees the operations.</p> <p>It monitors and ensures that operations, policies and strategies are adequately aligned.</p>	<p>The 3rd line challenges the design and effectiveness of risk management, compliance, control and governance processes.</p> <p>In order to achieve the necessary independence and objectivity, Internal Audit is an independent function that reports directly to the Board. As FRL is a start-up, we are building this function in 2020.</p>

### 2.6.5 Relationship between Solvency Self-Assessment, Solvency Needs & Capital and Risk Management

The company will follow an internal process to assess the adequacy of its risk management and current and prospective solvency positions under normal and severe stress scenarios. This solvency self-assessment will require analyzing all reasonably foreseeable and relevant material risks (i.e., underwriting, credit, market, operational, liquidity risks, etc.) that could have an impact on the insurer's ability to meet its policyholder obligations. Senior Management will review this actuarial assessment of their current and future risks which will articulate their own judgment about risk management and the adequacy of their capital position. This enterprise wide valuation is not a one-off exercise, it is a continuous evolving process and will be a component of the company's enterprise risk management (ERM) framework.

### **2.6.6 Solvency Self-Assessment Approval Process**

The Chief Actuarial Officer will conduct periodic risk analytic reviews to measure and manage the risk capital needs for the Company. An annual internal actuarial risk assessment report will be prepared for and vetted by Senior Management and presented to the Board for approval and subsequently distributed to relevant 3<sup>rd</sup> party reviewers (*i.e.*, auditors, rating agencies, regulators, and investors).

## **2.7 Internal Controls**

### **2.7.1 Internal Control System**

The Board and Senior Executives review and assess the effectiveness of the internal reporting and operating controls. Any material deficiencies are documented, and resolution measures are implemented in a timely manner. The Board and Senior Management have developed policies and procedures requiring direct reporting of internal control weaknesses to them.

Deficiencies are to be documented and resolution measures are implemented in a timely manner. It is the responsibility of our senior financial officers including our Chief.

### **2.7.2 Compliance Function**

The Company's management team has the responsibility to monitor regulatory changes in the relevant jurisdictions and compliance with applicable existing laws, including regulatory report and public disclosure requirements in order to avoid potential exposure to legal penalties, financial forfeiture and material lost caused by lack of compliance.

Compliance risk is mitigated by the following:

- The Board oversees that there are review mechanisms regarding the Company's compliance with all relevant laws, regulations, codes of conduct, industry standards and guidance notes.
- The Company's Senior Management who have over 20 or more years of experience – are familiar with and monitor developments in local laws and regulations.
- Work with third party service providers such as its external auditors and tax advisors – PriceWaterhouseCoopers; Bermuda counsel – Appleby; U.S. counsel – Mayer Brown and Davies as our Principal Representative and Insurance Manager who support and advise us when and if needed.
- The Company participates in industry peer groups and organizations which discuss and consider compliance and regulatory issues.
- Management conducts periodic informational meetings with the Bermuda Monetary Authority to ensure they are abreast with developments.

The compliance function is subject to oversight by the Risk Committee and Audit Committee. We educate employees that they must comply with all laws and regulations as laid out in our Code of Conduct and Employee Handbook. We seek to continually improve the methods and evaluation of risks and that we identify and update practices within the organization.

## 2.8 Internal Audit

The Company is implementing a robust internal audit function that will be fully functional in 2021.

## 2.9 Actuarial Function

The Company's actuarial function is responsible for setting, monitoring and adjusting technical provisions both premium and loss and loss expenses best estimates, and their corresponding risk margin.

The Company's Loss Reserve Specialist is MidAtlantic Actuarial Services.

The Company has established an effective actuarial function based on the nature, scale, complexity, and profile of risks to which it is exposed.

## 2.10 Outsourcing

The Company has appointed the following service providers:

- Davies Captive Management Limited ("Davies") - Insurance Managers and Principal Representative
- MidAtlantic Actuarial Services – Loss Reserve Specialist
- PWC - Independent auditor
- Omnium Corporate Services Limited - Company Secretary
- Appleby (Bermuda) Limited – Legal Advisors
- Fleming Corp – Investment managers
- Fireminds – IT service providers

## 2.11 Other Material Information

No other material information to report.

# 3. Risk Profile

## 3.1 Material Risk

Fleming Re's principal risk areas that make up our ERM Framework are Market, Liquidity, Underwriting, Reserving and Operational. These risks are identified in section 2.6.2 and discussed below:

### Market Risk

Fleming Re has identified Market Risk as a primary risk consisting of both Investment and Currency Risks. These risks are managed on a by portfolio and aggregate basis.

Our current portfolio consists of Funds Withheld and highly rated fixed income securities. We manage the portfolio to achieve strong risk adjusted returns, within our established risk appetite, and in accordance of our Investment Guidelines.

Given the composition of the 2020 Investment portfolio only consists USD securities, which support USD liabilities, currency risk is deemed minimal for the current year.

#### Liquidity Risk

Liquidity Risk is the risk that Fleming Re will not be able to meet the payment of liabilities when they come due. Fleming Re has implemented an effective assets liability management framework to mitigate Liquidity Risk. Given the assets are short duration and the relative size compared to the liabilities, Liquidity Risk was minimal for 2020.

#### Underwriting Risk

Fleming Re has outlined its Underwriting Guidelines, with key performance indicators (“KPI”), with the objective of achieving the Company’s strategic goals. The guidelines are embedded into the underwriting process with the goal of mitigating Underwriting Risk. The Company’s KPIs are established on both a qualitative and quantitative basis to define specific risk appetites and tolerances. Additionally, risks are evaluated on an aggregate basis. Note that Fleming Re is a dedicated run-off provider and consequently will not retain any material amounts of traditional P&C underwriting risk.

#### Reserving Risk

Reserve Risk is the most significant risk to Fleming Re as well as the run-off industry in general. Fleming Re has developed a propriety internal actuarial model for measuring and managing the inevitable variance (both adverse and favorable) of actual versus expected loss developments over time. The Fleming Re model applies stochastic Monte Carlo simulation techniques (calibrated via classic Bayesian risk analytics) to gauge relative reserve risk levels embedded within any given project and/or across the entire retained portfolio. This yields the requisite aggregate loss distribution that allows determination of the explicit capital risk charge for this pivotal business risk component. This analysis is performed quarterly and presented by the executive to the board of directors.

#### Operational Risk

Operational Risk is more challenging to quantify on an aggregate basis. Fleming Re has established an Operational Risk Framework to identify different these risks (compliance, legal, regulatory, etc....) and implement processes to mitigate each risk.

### **3.2 Mitigation of Risks**

Risk are mitigated in a variety of ways and Fleming Re believes effective risk management involves every individual in the organization however ultimately, they are reported and monitored by the Risk Committee. They ensure risk are kept within agreed limits.

### 3.3 Material Risk Concentrations

Underwriting guidelines clearly reflect that level and type of risk that Fleming Re is willing to take. Risk limits are overseen by the Board.

### 3.4 Investment of assets in Accordance with the Prudent Person Principals

Fleming Re's investments are managed by outsourced asset managers in accordance with the Investment Guidelines. Exposures are controlled by setting investments limits in line with the Company's risk appetite. The Investment guidelines are approved by the Board.

The assets are invested to maximize return within the Boards approved Risk appetite and requirements of the Prudent Person Principal. Investment are held at fair value, with changes in fair value recorded through the profit and loss account.

Investment goals that align with the Prudent Peron Principal are:

- Maintain ability to meet liability payoff obligations and operating expenses as they become due
- Preserve invested capital
- Investments should adhere to regulatory framework and agreed investment guidelines
- Earn attractive risk adjusted returns

Fleming Re assumes only investment risks that it can properly identify, measure, respond, monitor, control and report while taking into consideration its capital adequacy and liquidity requirements. All investment guidelines have been approved not only by Fleming Re's Board, but also by applicable counterparties and are documented for each transaction.

Investment guidelines are drafted to be aligned with the risk tolerance limits and exposures and must be approved by the Investment Committee of Fleming Re's Board.

Subject to Investment Committee approval, third-party investment managers may be hired and are subject to strict guidelines specified in their investment management agreement. Third-party managers also are used to augment Fleming Re's internal investment monitoring and risk management systems.

### 3.5 Stress and Scenario Testing

Given the nature of run-off liabilities, the overall book will reduce in size assuming expected performance and payout patterns. As such, solvency requirements will reduce over time unless impacted by deterioration. To assess the impact of potential deterioration, Fleming Re performs stress testing on a quarterly basis. The stress testing is focused on the investment portfolio and reserving process. Based on the procedures performed, the Board and Management consider the company to be appropriately capitalized with adequate liquidity to meet its liabilities and that risks to which the company are exposed continue to be managed within our appetite.

### **3.5.1 Assumed Risk**

Fleming Re is a dedicated run off solution provider. Consequently, the Company will not retain any material Underwriting Risk and, by definition, will only assume and retain risk exposure that derives from loss payout variability (“Reserve Risk”).

As discussed above in the Reserve Risk section, Fleming Re has developed a proprietary internal actuarial model that provides a comprehensive surveillance structure that yields both force rankings of each deal separately and an aggregate risk index for the entire portfolio at any given evaluation date.

### **3.5.2 Operational Risk**

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. Given Fleming Re is in an early phase of development and has few employees, the primary operational risks relate to outsourcing. Outsourcing risk is mitigated by close engagement with all phases of the business by a management team experienced in the industry segment as well as an outsourcing policy, which helps ensure that external service providers are among the best in class in the industry. As more staff are added, operational risk management focus will shift to risks arising from internal processes and people. As to regulatory and compliance risk, Fleming Re has in place a governance structure, a code of conduct and related compliance policies and the Company is committed to its stated underwriting objectives of Integrity, Transparency and Efficiency. Additionally, the operational risk program has close connection to and oversight by the board of directors. In 2021 Fleming Re will continue to review and refine its operational risk program to account for the growth of its transactions, staff and operations

## **4. Solvency Valuation**

### **4.1 Valuation Bases and Assumptions**

#### **4.1.1. Valuation of Assets**

The Company has used the valuation principles outlined by Bermuda Monetary Authority’s “Guidance Note for Statutory Reporting Regime” for the reporting period’s statutory filing. The economic valuation principles outlined in this document are to measure assets and liabilities on a fair value basis (which is the value that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between open market participants at the measurement date).

The fair value principles used for the assets are as follows:

**Cash and Cash Equivalents** – Cash and cash equivalents include deposits and short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value and which have maturity dates of less than one year. The valuation basis for the Economic Balance Sheet is consistent with the US GAAP financial statements.

**Quoted Investments** – Quoted investments primarily consists of highly rated US Treasury, US Agency and Mortgage Backed securities. All quoted investments are held at fair value based on quoted prices in active markets that are readily and regularly available. The valuation basis for the Economic Balance

Sheet is consistent with the US GAAP financial statements.

Funds Withheld - Funds held by ceding reinsurers are recorded at fair value. Funds held by cedants are a requirement of certain reinsurance contracts. These amounts are generally provided as cash and considered to represent fair value. Determination of fair value for funds held by cedants is after consideration of impairment of any amount's receivable. Funds Withheld has a stated crediting rate and does not have any underlying investment risks.

Deferred Tax Asset - Deferred tax balances are recognized in relation to all assets and liabilities that are recognized for solvency or tax purposes in conformity with US GAAP with a positive value only recognized where it is probable that future taxable profits will lead to the realization of the asset.

#### **4.1.2. Technical Provisions and Best Estimate**

Insurance technical provisions are valued based on best estimate cash flows, adjusted to reflect the time value of money using a risk-free discount rate term structure with an appropriate illiquidity adjustment. In addition, there is a risk margin to reflect the uncertainty contained inherent in the underlying cash flows which is calculated using the cost of capital approach and a risk-free discount rate term structure. The discount rate term structures are prescribed by the Bermuda Monetary Authority for each reporting period.

The Best Estimate provision for loss and loss expenses is based on US Generally Accepted Accounting Principles and adjusted for: 1) Prudence Margins, 2) Discounting, 3) Events not in data ("ENID") and 4) ULAE

The best estimate for the premium provision is calculated by using the unearned premium provision on a US GAAP basis and applying expected future loss ratios, expense ratios and appropriate claims payout patterns to derive cash flows. The premium provision is the discounted best estimate of all future cash flows relating to future exposure arising from policies that the (re)insurer is obligated to at the valuation date. Hence the premium provision is calculated as the expected present value of future claims from future exposure, plus future expenses incurred to settle these claims, less future premium receivable in relation to future exposure.

At December 31, 2020, the total Technical Provisions amounted to \$10.323m comprising the following;

Best estimate loss and loss expense provisions \$9.447m

Risk margin \$876k

#### **4.1.3 Reinsurance Recoverables from Reinsurance Contracts**

There are current no reinsurance recoverables.

#### 4.1.4 Valuation Other Liabilities

The Company’s liabilities follow the valuations principles outlined by Bermuda Monetary Authority’s “Guidance Note for Statutory Reporting Regime” which values liabilities at a fair value basis

Valuation bases of other liabilities are based on a US GAAP basis as other liabilities are short term in nature (less than one year) and therefore no discounting is required.

Accounts payable - These liabilities are not subject to valuation adjustment between US GAAP and Economic Balance Sheet. With these liabilities largely expected to be settled within one year, any fair value adjustment is not material.

#### 4.1.5 Any Other Material Information

No additional material information to report.

## 5. Capital Management

### 5.1 Overview

### 5.2 Eligible Capital

#### 5.2.1. Capital Management Policy and Process for Capital Needs, How Capital is Managed and Material Changes During the Reporting Period

The primary capital management objective of the Company is to maintain a strong capital base to support the business and to meet regulatory capital requirements.

Given the over-collateralized nature of the business and strict investment guidelines associated with that collateral, the Company’s assets are very liquid. The Company has significant sources of capital that is able to meet the needs of the upcoming year.

#### 5.2.2. Eligible Capital Categorized by Tiers in Accordance to the Eligible Capital Rules Used to Meet ECR and MSM Requirements of the Insurance Act:

As at December 31, 2020 Fleming Re’s Eligible Capital was categorized as follows:

	2020
Tier 1	\$8,235,000
Tier 2	
Total	\$8,235,000

#### 5.2.3. Confirmation of Eligible Capital That is Subject to Transitional Arrangements

The Company does not have eligible capital that is subject to transitional arrangements.



#### 5.2.4. Identification of Any Factors Affecting Encumbrances on the Availability and Transferability of Capital to Meet the ECR

The Company does not have any factors affecting encumbrances on the availability and transferability of capital to meet the ECR.

#### 5.2.5. Identification of Ancillary Capital Instruments Approved by the Authority

The Company does not have any ancillary capital

#### 5.2.6. Identification of Differences in Shareholder’s Equity as Stated in the Financial Statements Versus the Available Capital and Surplus

The Company does not have any difference in shareholders equity.

### 5.3 Regulatory Capital Requirements

#### 5.3.1 Economic Capital requirement and Minimum Margin of Solvency

As at December 31, 2020, the regulatory capital requirements for ECR and MSM were:

Year Ended December 31, 2020	
ECR	\$4,909,000
MSM	\$1,222,000

#### 5.3.2. Identification of Any Non-Compliance with the MSM and the ECR

The Company was compliant with the MSM and ECR requirement at the end of the reporting period.

#### 5.3.3. A Description of the Amount and Circumstances Surrounding the Non-Compliance, The Remedial Measure and Their Effectiveness

The Company was compliant.

#### 5.3.4. Where the Non-Compliance is not Resolved, a Description of the Amount of the Non-Compliance

The Company was compliant.

### 5.5 Approved Internal Capital Model

The Company is planning to apply to have its internal capital model approved to determine regulatory capital requirements.

## 6. Subsequent Events

In Q1 2021, the Company completed a novation transaction, for certain policy years, of a Hawaii domiciled beverage group captive.

DECLARATION

To the best of their knowledge and belief, the financial condition report fairly represents the financial condition of Fleming Reinsurance, in all material respects as at December 31, 2020.



Eric Haller

Director



Nicholas Frost

Director